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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The West German Economy In The Spring Of 1970

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1970

INTELLIGENCE MEMORANDUM

The West German Economy In The Spring Of 1970

Introduction

West Germany's 30-month old economic boom is continuing, but signs point to a slowdown late this year. Revaluation of the Deutschemark (DM), in October 1969, has not yet had much of a moderating effect. Prices and wages have risen more rapidly in recent months than at any time since the Korean economic expansion of two decades ago. The government and monetary authorities face the delicate task of devising the proper policy mix that will reduce inflation to an acceptable rate without precipitating a recession. Facing important elections in several states during the current year and obtaining divided counsel on economic prospects and prescriptions, the Brandt coalition government thus far has moved cautiously in applying fiscal brakes. Less inhibited by political constraints, the Bundesbank, as in 1966, has again assumed the more active role in economic policy formulation. Its recent increase in the rediscount rate, the bellwether for the entire structure of domestic interest rates, from 6% to a postwar record high of 7.5% is the most severe anti-inflationary action thus far taken.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence and the Office of National Estimates.

The Boom Continues

1. The West German economy today exhibits most of the symptoms characteristic of the late phase of a prolonged boom -- virtually full capacity utilization of plant and equipment, depleted labor reserves, rapidly rising wages and prices, and lengthening delivery schedules but a dropoff in the growth of new orders. The continuing large foreign trade surplus is the only incongruent element in the picture.

2. By straining available resources to the limit, West Germany in 1969 was able to increase its GNP (in constant prices) by 8.4%, exceeding the already very high real growth rate of 7.6% registered in 1968. The output of goods and services is still expanding vigorously, but at a declining rate. Whereas GNP (in constant prices) in the first quarter of 1969 exceeded the level of the corresponding period in 1968 by 9.4%, growth by the fourth quarter had slowed to 7.4%. Industrial production in 1969 increased 12.5%, compared with 11.8% in 1968. As in the case of GNP, however, the rate of growth declined in the course of the year. Compared with the corresponding periods in 1968, industrial production was up 16% in the first quarter of 1969 but only about 10% in the fourth quarter.

3. Demand has been putting increasing pressure on capacity. Its composition has begun to change. Export orders have declined and investment demand, although still very strong, has shown signs of softening. Consumer demand, on the other hand, has been strengthening in the wake of the rapid growth of wages.

Order Books at Record High

4. Industry's order books remain at record highs, but new orders are coming in at a slower pace than earlier in the year (see Table 1). Backlogs of current orders insure near-capacity production for several months in most industries, and virtually through the end of the year in such branches as machine building, electrical and electronic machinery, and steel construction. Prospective purchasers of luxury automobiles, such as the prestigious new Mercedes line, must wait nearly a full year for delivery.

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Table 1

New Orders in Industry

Percent Change from Preceding Year

	1969				January	
	1st Qtr	2d Qtr	3d Qtr	4th Qtr	1969	1970 a/
All industry	27.2	23.7	23.1	16.5	28	4
Domestic	27.1	22.8	23.2	20.0	29	7
Export	30.1	28.3	25.5	5.8	28	-6
Basic industry	20.9	18.7	16.5	14.6	23	6
Domestic	20.2	18.6	18.0	19.8	24	8
Export	22.7	19.1	12.1	-0.6	20	1
Capital goods industry	36.2	35.6	34.5	20.8	36	4
Domestic	37.9	37.8	36.5	26.9	41	9
Export	33.6	31.8	32.8	8.1	30	-8
Consumer goods industry	19.6	8.7	10.6	9.5 a/	19	-2
Domestic	17.8	6.0	9.4	9.7 a/	16	4
Export	34.4	32.1	21.2	9.8 a/	45	-11

a. *Preliminary data.*

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5. The sharp dropoff in new export orders in the last quarter of 1969 probably reflects in large measure the inevitable reaction to the pre-revaluation foreign buying spree earlier in the year. Contributing factors include the slowdown in business activity in the United States, the devaluation in France, and the deterioration in the international competitive position of West German industry as a result of the revaluation. While all sectors of industry will be affected by the decline in new foreign orders, the impact probably will be most severe in the capital goods industry -- Germany's most important industrial sector -- which is much more dependent on exports than either the basic or consumer goods industries:

Industry	Exports as a Percent of Production
Basic	20
Capital goods	32
Consumer goods	12

Domestic orders are still growing rapidly with perhaps some slowdown in capital goods but an acceleration in consumer goods.

Shortage of Manpower and Physical Plant

6. The recent slowdown in the growth of industrial production reflects the limitations imposed by available manpower and production facilities. The labor market was tight throughout 1969. Nevertheless, contrary to all expectations, German industry was able to expand its labor force more than 5%, by increasing the number of foreign workers and recruiting labor from other sectors of the economy. A similar increase in industrial employment in the current year, however, is not likely. Reversing normal seasonal trends, unemployment declined in February 1970 to 264,000 -- only 1.2% of total wage and salary earners -- nearly one-third below the level in February of last year. At the same time, reported vacancies increased to 788,000, more than one-quarter above last year. The foreign labor force in February exceeded 1.7 million, a new record and half a million more than last year.

7. Insufficient productive capacity is becoming an increasingly severe bottleneck. German industry is still suffering the consequences of the sharp decline in investment activity during the 1966-67 recessions. As shown in the data below, net fixed investment fell off sharply in 1967 and did not exceed the 1965 pre-recession high until 1969.

Year	Net Fixed Investment (Million DM)	Net Investment Index (1965 = 100)
1965	57,940	100
1966	57,010	98
1967	44,650	77
1968	49,390	85
1969	62,980	109

8. Because of lagging investment in plant and equipment during 1966-68, as well as rapidly growing demand, West German industry has been forced to operate at increasingly high rates of capacity utilization. According to data prepared by the German Institute for Economic Research, the average rate of plant utilization for all manufacturing industries rose from 78.3% at the bottom of the recession in mid-1967 to a record of nearly 96% in the last quarter of 1969. Even higher rates for the last quarter of 1969 were indicated for capital goods industries (98.2%) and consumer goods industries (98.8%).*

Soaring Wages

9. Two years of relative moderation in labor's wage demands came to an end in 1969. Collective bargaining agreements negotiated in 1967 and early 1968 -- in the shadow of the recession -- had provided wage increases of 3.5% to 4.5%. As these

* *Probably using a somewhat different formula for estimating the rate of plant utilization, other research institutes, notably the Munich IFO institute, calculate a somewhat lower rate of plant utilization which nevertheless represents a record rate for postwar years.*

agreements ran out in 1969, labor took advantage of its strong bargaining position under conditions of full employment to stiffen its demands. The first round of 1969 wage negotiations produced settlements providing for wage increases of 5.5% to 7.5%. But even these were still quite modest compared to what was yet to come.

10. With the economy continuing to forge ahead at full steam, management was not inclined to put up stiff resistance against labor's sharply rising clamor for higher wages and miscellaneous fringe benefits. (Indeed, a further upward adjustment in wages was generally considered justified to compensate labor for its earlier restraint.) A wave of wildcat strikes -- unprecedented for the traditionally highly disciplined German labor movement -- at some of the major iron and steel, coal, and shipbuilding firms was quickly settled in the fall, but at the expense of wage increases ranging as high as 11%. These settlements in turn set the stage for new wage increases in other sectors of industry and, subsequently, throughout the economy. Average hourly wage rates in the last quarter of 1969 were up nearly 9% over the last quarter of 1968. Counting both overtime pay and the premium wage rates that firms were increasingly required to pay to attract additional workers, wages and salaries per person employed in industry averaged 14% higher in the last quarter of 1969 than in the year before.

11. Wage increases of such magnitude could not be offset by increases in labor productivity. In fact, as the rate of plant utilization was pushed beyond the optimum and as additional jobs of necessity could be filled only by less qualified labor, the growth of labor productivity declined. As a result, wage costs per unit output, which had remained essentially unchanged between mid-1967 and mid-1969, rose sharply in the fall and winter of the year. In the last quarter of 1969 they were 7.2% greater than in the corresponding quarter of 1968. With wage increases continuing to proliferate throughout the economy and with business facing additional charges for sick pay and social insurance, further substantial increases in wage costs per unit of output must be expected.

Prices Shoot Up

12. Enjoying an unparalleled sellers' market, industry was quick to raise its prices in order to compensate for rising costs of production, thus shattering the relative price stability that had prevailed since the recession. Earlier in 1969, manufacturers had resisted the temptation to raise prices in the face of heavy demand pressures. This restraint has been attributed in part to an informal commitment of major producers to maintain price discipline pending the fall elections so as not to jeopardize then Chancellor Kiesinger's re-election chances in the wake of his "no revaluation" pledge which was being attacked as inflationary by the opposition Social Democrats.

13. With the election out of the way and the Social Democrats and Free Democrats installed as the governing coalition, politically motivated price restraint evaporated. Under the combined pressure of cost-push and demand-pull, industrial prices rose 3.5% between September 1969 and January 1970 -- that is, at an annual rate exceeding 10%, the highest rate since the Korean economic expansion in 1950. In January 1970 the index of industrial prices was up 5.8% from the year before. Especially marked were the price increases for capital goods during this period -- about 15% at an annual rate. Prices of manufactured consumer goods and basic industrial materials rose more slowly (at annual rates of 6% and 7%, respectively). Construction costs also have gone up sharply and currently are about 10% above last year's levels.

14. Consumer price increases also have begun to accelerate. In January 1970, the cost of living was 3.5% above the level of January 1969, a rate considered unacceptably high in this highly inflation-conscious country. Between September 1969 and January 1970, prices rose at an annual rate of more than 7% (compared with an annual rate of 5.7% during the corresponding period of the year before).

15. The January index, to be sure, reflects seasonally high prices of selected farm products that should decline in the course of the year. Some additional relief, although less than originally estimated, can also be expected once the reduction

in domestic farm prices -- required by EEC regulations in the wake of revaluation -- are translated into lower shelf prices for processed foodstuffs.* Nevertheless, with industrial price increases, which currently exceed those at the retail level by a substantial margin, not yet fully reflected in the consumer price index, further sizable increases in the cost of living are likely.

Foreign Trade Surplus Still Very Large

16. As shown in Table 2, the foreign trade surplus in 1969 declined below the 1968 record but nevertheless remained very large.** Reflecting growing domestic demand pressures, imports in 1969 rose 21%, substantially exceeding their 1968 growth rate of about 16%. Exports, on the other hand, increased 14%, about the same rate as in 1968. The trend of imports rising faster than exports is expected to continue during the current year, reinforced by the effects of revaluation. Official government estimates for 1970 project growth for exports and imports at 6% and 13% to 14%, respectively.

Impact of Revaluation

17. Until very recently the current boom was led by burgeoning export demand, widely attributed to the competitive advantage enjoyed by German industry as a result of the undervaluation of the Deutschemark. Imposition in November 1968 of a 4% tax on

* *The price level of farm products subject to the EEC's Common Agricultural Policy is expressed in units of account, with each unit of account equivalent to US $1. Domestic prices for these products are calculated by multiplying the units of account by the dollar parity of the domestic currency. As a result of revaluation, the Deutschemark equivalent of the unit account has been reduced from DM 4.00 to DM 3.66 -- that is, by 9.3%. To compensate West Germany's farmers for this decline in their prices, the government has been authorized by the EEC Commission to pay temporary subsidies.*

** *A part of the decline in the trade surplus is attributable to a bunching of export orders in late 1968 to avoid the special 4% export tax that became effective in 1969.*

Table 2

Foreign Trade Balance a/

Billion Deutschemarks

Year	Exports	Imports	Surplus
1967	87.0	70.2	16.8
1968	99.6	81.2	18.4
1969	113.6	98.0	15.6
1968 b/			
1st quarter	23.9	19.3	4.6
2d quarter	22.9	19.5	3.4
3d quarter	25.6	21.0	4.6
4th quarter	27.0	21.3	5.7
1969 b/			
1st quarter	26.3	23.2	3.1
2d quarter	28.5	24.7	3.8
3d quarter	29.6	25.2	4.4
4th quarter	29.0	24.8	4.2

a. Because of rounding, components may not yield the values shown.
b. Seasonally adjusted.

exports and a 4% tax rebate on imports for all commodities not subject to the EEC's Common Agricultural Policy failed to exert a noticeable moderating influence on the boom. Increasing foreign trade surpluses and massive inflows of speculative funds greatly increased the liquidity of the economy and jeopardized the Bundesbank's ability to restrain inflation. In the face of these developments, Social Democratic Minister of Economics Schiller, who had opposed revaluation in November, recommended its immediate adoption as the most effective means for restoring domestic and external stability.

18. With parliamentary elections in the offing in September 1969, political considerations persuaded then Chancellor Kiesinger to reject revaluation. Following a dramatic cabinet session, he announced on 9 May 1969 that revaluation was out "for all eternity," and recommended instead a series of monetary measures designed to restrain the inflow of

speculative capital and slow down the rate of domestic credit formation. The remedial effect of these measures was at best temporary. Revaluation became a major campaign issue with the Social Democrats lined up in favor and the Christian Democrats opposed. Inflationary pressures continued to build up and speculative inflows resumed at an accelerated pace with the approach of the September election date. The newly elected Brandt government revalued the Deutschemark from DM 4.00 per US dollar to DM 3.66 per US dollar on 26 October, essentially ratifying the free-market rate established since the Deutschemark had been "floated" on 30 September.

19. Revaluation has set the stage for long-run internal and external equilibrium in the German economy and for greater stability in the international monetary system. Its most pronounced effect to date has been the dramatic reversal of the massive inflow of private short-term capital that had created excessive liquidity, especially in the non-banking sector, and placed it virtually beyond the control of the monetary authorities. As shown in Table 3, which summarizes West Germany's balance of payments for 1969, by far the greater part of the speculative funds that had poured into Germany during the period up to the "floating" of the Deutschemark flowed back abroad. The outflow of foreign exchange extended beyond the repatriation of speculative funds. Long-term capital exports persisted after revaluation and indeed reached record proportions ($1.2 billion) in December, as foreign customers drew heavily on lines of credit established by German banks prior to the revaluation. Reflecting the large net outflow of short-term and long-term capital combined -- which far exceeded the current account surplus earned during the period -- the Bundesbank's gold and foreign exchange reserves declined sharply from about $12.2 billion just prior to the "floating" of the Deutschemark to $7.1 billion at the end of the year. The most recent data available (for 23 February 1970) show official reserves, including the special drawing rights recently distributed by the International Monetary Fund (about $200 million for West Germany), at about $7.9 billion. This was approximately the level of reserves during the mid-1960s.

20. The revaluation, and the massive outflow of funds associated with it, have significantly

Table 3

West Germany: Balance of Payments
1969

Million Deutschemarks

	January-September	October	November	December [a]
A. Current account				
Balance of trade	10,648	1,453	1,445	2,013
Exports (f.o.b.)	82,658	10,973	9,598	10,330
Imports (c.i.f.)	72,010	9,520	8,153	8,317
Services	-117	-16	-200	-220
Transfer payments	-5,241	-496	-563	-1,525
Balance on current account	5,290	941	682	268
B. Capital account				
Long-term capital				
Private long-term capital	-12,579	-2,217	-2,458	-3,685
German investment abroad	-14,214	-1,782	-2,13[illegible]	-3,446
Foreign investment in Germany	1,635	-435	-324	-439
Official long-term capital	-1,006	-160	-247	-478
Balance on long-term capital account	-13,585	-2,377	-2,705	-4,363
Short-term capital and residual items				
Banks	-181	-1,865	-1,191	7,519
Business enterprises	16,259	-1,438	-3,789	-9,637

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Table 3

West Germany: Balance of Payments
1969
(Continued)

Million Deutschemarks

	January-September	October	November	December a/
Credits	5,308	-95	-2,224	-3,177
Residual items	10,951	-1,343	-1,565	-6,469
Official	347	-463	-66	65
Balance on short-term capital account	16,425	-3,766	-5,046	-2,853
Balance on capital account	2,840	-6,143	-7,751	-6,416
C. Balance on current and capital account (A & B)	*8,130*	*-5,202*	*-7,069*	*-6,148*
D. Bundesbank losses from revaluation	--	-4,099	--	--
E. Net changes in official reserves	*8,130*	*-9,301*	*-7,069*	*-6,148*

a. *Provisional.*

replenished the official reserves of the deficit countries (although an undetermined amount went into Eurodollar channels) and thereby contributed to the renewed confidence and stability in the international monetary system. The internal economic effect of this outflow was a severe reduction in liquidity which increased the effectiveness of the Bundesbank's monetary policy.

21. With operating capital requirements increasing rapidly, the sharp outflow of funds forced the business community to rely increasingly on the banks for financing. The fourth quarter of 1969 witnessed the most hectic demand for bank credit in West Germany's history -- the banks extended more than DM 22 billion (about $6 billion) in credits to the private sector. With credit expanding much faster than saving, bank liquidity contracted drastically. Free liquid reserves of the banks fell from about 12% of total deposits prior to the revaluation to less than 6% at the end of January 1970, the lowest level in five years.

22. Under the impact of the tightening credit squeeze, interest rates began to increase. The Bundesbank in December raised its Lombard rate -- that is, the rate on its advances against securities -- from 7.5% to 9% as a precautionary move to eliminate the differential between domestic interest rates and the rates prevailing in the Eurodollar market and thus to discourage further outflows of capital.

23. Apart from its impact on export orders already discussed in paragraph 4, the principal effect of revaluation on Germany's foreign trade thus far has been on export and import prices. According to Bundesbank estimates, export prices to foreign buyers have increased about 14% to 15%. With the added effect of the August devaluation of the franc, French buyers, who ordinarily account for about one-eighth of German exports, face a 25% price increase. Because of full export order books, however, the effects of these price increases will be slow to affect the volume of exports.

24. The effect of revaluation on import prices has been far less dramatic. Average import prices during the last quarter of 1969 were 2.7% below

those in the pre-revaluation third quarter. This did not result in a reduction in the domestic price of imported goods, however, partly because revaluation was accompanied by the elimination of the 4% tax rebate and partly because an increasing number of foreign exporters, anticipating revaluation, reportedly had insisted on negotiating their contracts in Deutschemarks. Nevertheless, revaluation has slowed the rapid rise in the price of imported goods experienced earlier in the year. With domestic prices currently increasing at a faster pace, imports for the time being at least are becoming relatively cheaper.

Government Policy

25. The continuing boom confronts the Brandt government with a serious dilemma. Because of intensifying inflationary pressures, the government's economic policies are certain to become a major campaign issue in the important elections scheduled in several states in the course of the year. Although the composition of state governments is primarily at stake in these elections, the prestige of the Brandt coalition -- and possibly its continued cohesion -- are also on the line. Short of applying direct wage and price controls -- which are politically anathema and opposed by labor and management alike -- there is little the government can do that would have an immediate effect on the inflation. But there is a risk that any strong deflationary fiscal action would have its full effect at a time when the boom was already spent and might then turn a slowdown into a recession. While there are some signs suggesting a slowdown of business activity toward the end of the year, the evidence is far from clear. Under these circumstances, the government has been cautious in taking anti-inflationary fiscal action, thus leaving the main burden to the Bundesbank.

26. The cautious fiscal program adopted by the cabinet on 22 January 1970 reflects the difficulty in reaching agreement on economic prospects and prescriptions among members of the coalition. It includes a reduction in the growth of budgetary expenditures at the federal and state levels; an indefinite blocking of DM 2.6 billion in federal government expenditures pending more appropriate cyclical conditions; a "freezing" of DM 2.5 billion

of excess tax receipts in a special countercyclical reserve at the Bundesbank; a postponement until 1 July 1970 and 1 January 1971 of previously promised tax relief measures; selected measures to promote private savings; and a freeze on government controlled or influenced prices.

27. The federal budget for 1970 generally complies with the government's stabilization program. Net federal government expenditures are to increase 8.8%, probably less than GNP measured in current prices, to DM 91.4 billion, of which DM 2.7 billion is to be released for investment only if the boom eases. Pending parliamentary approval of the budget, not expected before May, Finance Minister Moeller has instituted administrative restrictions designed to limit the increase in government expenditures to no more than 4% above the level of the corresponding period last year. This action is designed to maximize the anti-inflationary effect of budgetary policy during the first half of the year, when price pressures are expected to be at their strongest. As a result of these measures, the government currently expects a sizable surplus in its account for the first half of 1970, and a balanced budget is planned for the year. Although complete data are not yet available on the proposed budgets of the individual states and local authorities, early indications are that they will generally cooperate with the federal government in cutting back or blocking planned expenditures.

28. January's unexpectedly sharp rise in industrial prices and in the cost of living raised considerable doubts as to the adequacy of budgetary restraints in 1970. The opposition CDU/CSU accused the government of abandoning its goal of economic stability, but it failed to advance an alternative program. In order to strengthen the government's hand in dealing with the inflation -- now increasingly being fed by consumer demand -- Economics Minister Schiller recommended that the government use its discretionary authority, provided for in the Stability and Growth Law, to impose a temporary surcharge on income taxes. But the surcharge proposal was rejected by the cabinet as was Schiller's alternative recommendation for accelerated tax collection with a provision for repaying or crediting the extra levies assessed to future tax liabilities once the boom had lost its steam. Indeed,

it met considerable opposition also in some banking and business circles which were not convinced that additional restrictive measures were necessary. Trade union opposition and the fear of adverse voter reaction in upcoming state elections were among the factors motivating the cabinet decision.

29. The Bundesbank was content to play a relatively passive role during the early months following revaluation. In the face of mounting inflationary pressures, the Bank elected to defer a decision on further restrictive action and let the government take the lead in developing a stabilization program. The memory of the 1966/67 recession, precipitated by tight monetary policy imposed in the face of government inaction, was still fresh in the mind of the Bank's authorities.

30. The Bank decided to act, however, when it became clear the the government was unwilling or unable to accept the more stringent fiscal restraints recommended by Economics Minister Schiller. On 5 March 1970 the Bank raised its discount rate drastically from 6% to 7.5%, the highest rate in the postwar period. At the same time, it increased the Lombard rate (the rate on advances against securities) to 9.5%, also a record high. Both actions were taken in full accord with the views of the Economics Ministry. Their immediate impact is largely psychological. They serve as an unmistakable warning to business and labor to moderate their wage and price demands and to the government to intensify its anti-inflationary measures. The Bank is employing the interest rate mechanism to induce a slower rate of credit expansion, but has so far eschewed action directly restricting the supply of money and credit, such as increasing the minimum reserve requirements or reducing the rediscount quotas of the commercial banks. If the psychological impact of the Bundesbank's warning and the more tangible effect of the increase in interest rates precipitated by the discount rate rise are not sufficient to cool the inflationary climate, the Bank will take stronger measures.

Prospects for the Remainder of 1970

31. There is little doubt that the slowdown in economic growth which began in 1969 will continue in 1970. The labor supply will probably grow at a

Table 4

West German Economic Projections for 1970

Percent Change from Previous Year in Current Prices

	1969 Actual Results	Ministry of Economics
Private consumption	10.4	9.5 - 10.5
Public consumption	11.1	9.5 - 10.5
Gross fixed investment	18.9	13.0 - 14.0
Exports of goods and services	14.1	5.0 - 6.0
Imports of goods and services	19.1	9.5 - 10.5
GNP (current prices)	11.8	9.0 - 10.0
GNP (1954 prices)	8.4	4.0 - 5.0
Prices		
GNP deflator	3.1	5.0
Domestic demand	2.8	4.0
Of which:		
Private consumption	2.5	3.0

slower rate than last year. There is almost no slack left in the economy. Export demand may slow sufficiently to bring production in some industries below capacity in the second half of the year. Fiscal policy will exert a mild restrictive influence on the economy. And, if inflation does not ease, the monetary screws will probably be tightened.

32. The West German government projects a slowdown in economic growth, as shown in Table 4. For the year as a whole, nominal growth is expected to reach 9% or 10% and real growth 4% or 5%, sharply down from the 8.4% realized in 1969. Because of the large backlog of industrial orders, however, the slowdown is not expected to become pronounced until the second half of the year.

33. The course of domestic demand in 1970 will depend greatly on German monetary and fiscal policies. There are some indications of a slowdown in

domestic orders for capital goods, and the government is forecasting that growth of fixed investment will be only half as rapid as last year. High interest rates should discourage inventory accumulation. On the other hand, the growth of consumer demand may accelerate, reflecting the rapid growth of wages, so that the official projection for private consumption at the same growth rate as last year may be too low.

34. The government projects a growth of 5% to 6% in exports, as indicated earlier. Exports have fallen in recent months, but it is too early to disentangle the effects of domestic inflation and revaluation on Germany's competitive position from the aftermath of the speculative foreign buying spree prior to revaluation. A major source of uncertainty is the course of the US and French economies. In any case, many German exporters are likely to have a harder time in 1970, being faced with rapidly rising labor costs, high interest rates, and scarce credit on top of the revaluation.

35. While imports will probably grow considerably faster than exports in 1970 (the government projects about 14%), the trade surplus will probably not be eliminated. If the government's projections are borne out, Germany would have an approximate balance on current account -- still a remarkable performance at the peak of a boom when most countries experience a sizable deficit. Imports could rise much faster than projected if rapid inflation continues. But if Bundesbank and government action should force the economy into a recession, the trade surplus would soon start growing again.